

TO: Files

CC: San Diego Audit Committee

FROM: Michael M. Shapiro

RE: Interview of Ed Wochaski on April 20, 2006

DATED: May 2, 2006

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On April 20, 2006, Tory Dahlberg of the Audit Committee, and Sharon Blaskey and Michael Shapiro, in Willkie Farr & Gallagher LLP's capacity as counsel to the Audit Committee, interviewed Ed Wochaski from the City of San Diego Auditor's Office, at the City Administration Building 202 C Street in San Diego, in a conference room on the third floor. Rahul Khona from KPMG also attended the interview, as did Lynn Turner of the Audit Committee. Mr. Wochaski was not represented by counsel.

The following memorandum reflects my thoughts, impressions, and opinions regarding our meeting with Ed Wochaski, and constitutes protected attorney work product. It is not, nor is it intended to be, a substantially verbatim record of the interview.

### ***Warnings***

Ms. Blaskey informed Mr. Wochaski that we are counsel to the Audit Committee and do not represent him or any employee. She advised Mr. Wochaski that the interview may be considered attorney work product and confidential, but the decision of whether to keep it confidential will be made by the Audit Committee in the best interests of the City, not by him personally. She said that it is important for Mr. Wochaski to keep the contents of the interview confidential to maintain the integrity of the process. Ms. Blaskey said we will create a report which may contain statements of interviewees, and this report will likely be provided to KPMG and ultimately made public. She said government agencies may view the report and may be provided with additional information so it is important to be truthful and accurate. Mr. Wochaski asked whether he will receive a transcript of the interview. Ms. Blaskey informed Mr. Wochaski that he would not receive a transcript as no transcript is being made and any notes taken are work product.

### ***Background***

Ms. Blaskey asked Mr. Wochaski to discuss his background. He said that he currently serves as a Principal Accountant in the System's Division at the Auditor & Comptroller's Office and has held that position for six months. He said he received a B.S. in Accounting from San Diego State University and worked for three years for a credit union in Denver before beginning work in San Diego. He started working for San Diego in May 1995 as an Accountant Trainee and in that capacity worked on grants, mostly for the police, for three to four months. He became a Utility Accountant Trainee for water and sewer in 1995 reporting to

Linda Hammerschmidt and then became an Accountant II. At the time, Hammerschmidt was a Principal Accountant and reported to Phil Phillips. Phillips reported to Terri Webster, who reported to Ed Ryan. His roles and responsibilities working for the water and sewer utilities included providing fixed asset information for the financial statement, reviewing accounting for payments, engaging in staff accounting activities, and dealing with requests for payment from the water or sewer department management analysts. He served as an Accountant II for a year or so and then skipped a level and became an Accountant IV, a first level supervising accountant for the water, sewer and proprietary funds. In this position, he compiled financial statements and reviewed the work of other accountants. The Accountant IV position was newly created when he was hired for it, because the workload was increasing. When asked by Ms. Blaskey if it was very atypical to skip a level as he did, he said it was not.

### ***Overview of Involvement with Financials***

Ms. Blaskey asked Mr. Wochaski to describe his involvement with the interim and annual financials. He said that the interim and annual financials were done by the Auditor & Comptroller's Office. He would request information from the water and sewer departments and would close out the fiscal year, do post-close adjustments, categorize information into accounts and classes, and prepare financial statements for the CAFR and for the water and sewer utilities. He said the information from the sewer and water statements could be "lifted" into the CAFR. Mr. Wochaski stated that there is no requirement that information in the statements and the CAFR be the same but during the last few years he tried to make them more consistent. He noted that the statements and the CAFR did not match as of the mid-1970's.

Mr. Wochaski would also produce separate stand alone financials for water and sewer and those were separately audited by Calderon, Jaham and Osborn and later, Caporicci and Larson ("C&L"). In 1999-2000, he took over for Victoria Chavez who did the water and sewer financials.

### ***Review of Financial Statements***

Ms. Blaskey asked Mr. Wochaski whether he reviewed the City's annual financials (CAFRs). Mr. Wochaski said he reviewed them for their numbers. The transmittal letter was the management representation letter, signed by Ryan, which was sent to the outside auditor by the City management and was part of the work papers. Ryan did not prepare the letter himself but rather it was printed by his executive secretary. Mr. Wochaski believes Ryan reviewed the financials before signing the letter. Later in the interview, Mr. Wochaski said the management letter was signed by City Manager Michael Uberugua.

Ms. Blaskey asked Mr. Wochaski to describe the process for reviewing the water and sewer utility stand-alone financial statements. In 1999 and 2000, Mr. Wochaski provided the water and sewer utility statements to Hammerschmidt who would review them and provide comments. Starting in 2001, he would provide the statements to Phillips for comments but it was his perception that Phillips did not review them because Phillips never provided comments. Mr. Wochaski also provided the statements to Ryan who would give him comments. He noted that Ryan's comments were usually analytical in nature. For example, he recalled one comment that asked why revenues increased.

### ***Compilation of Financial Statements***

Ms. Blaskey asked Mr. Wochaski to discuss how financial statements were compiled. He replied that the City used the SAS system, which is a database that writes programs which produce reports. SAS takes the fiscal year end data and adds post close adjustments, compiles them, and produces the financial statements. He then adds tables into SAS and SAS places the information into the financial statements.

### ***Sewer/Water Data***

Ms. Blaskey asked Mr. Wochaski to describe what type of information he would receive from the water and sewer utilities. He said he would request such information as chemical inventory, whether capital projects closed, a list of grants/loans outstanding, and what grant/loan money had been spent, received and earned.

### ***SRF Involvement***

Ms. Blaskey asked Mr. Wochaski about his involvement with State Revolving Fund (hereinafter "SRF") loans and grants. He responded that SRF loans were tracked internally by the sewer department. Accountant III Leann Joan Santos would request information from Richard Enriquez and Clay Bingham. She would incorporate that information into the financials and book journal entries into the system. She would use the same process for the grants as the loans. Enriquez provided information about the grants, while Bingham provided loan information.

### ***Footnotes to the Stand-Alone Financials***

Ms. Blaskey asked Mr. Wochaski to describe the process for preparing the water and sewer footnotes. He said that from 1999-2002, the water and sewer notes from the previous year would be provided to the executive secretary for the Auditor & Comptroller's Office, Marian Thompson, who would print out a copy. Depending on the year, he or Santos would review them and mark up changes and Thompson would input them. He did the changes in 1999-2000, and Santos did them in 2001-2002. He and Santos would change the numbers for certain sections from the previous year but the risk management and retirement sections were copied directly from the CAFR note. Ms. Blaskey asked Mr. Wochaski how he would know of changes from the prior year. He said the CAFR would contain the new information. He also said that the outside auditors had the responsibility to make sure the text was correct, they prepared the CAFR footnotes, and also reviewed the water and sewer notes after Wochaski's group updated them. He would review the notes and make obvious changes before giving them to the outside auditors. The pension plan and post retirement health benefits sections would be lifted entirely from the CAFR.

### ***Cost of Service Study ("COSS")***

Ms. Blaskey asked Mr. Wochaski whether he knew what a Cost of Service Study (hereinafter "COSS") was and what his involvement was with the COSS. He said he is familiar

with the term Cost of Service Study, which is similar to a rate case but is more in-depth, and discusses necessary services and rate changes. Regarding his own involvement with the COSS's, he said he provided some fixed asset information for the 2003 one but was not involved in the earlier ones.

### ***POS v. OS***

Ms. Blaskey asked Mr. Wochaski to describe the differences between an Official Statement ("OS") and a Preliminary Official Statement ("POS"). He said that a POS is like a prospectus, in that it is a document that is used prior to the bond sale, while the OS is issued after the sale.

### ***Involvement with Bond Offerings***

Ms. Blaskey asked Mr. Wochaski about his involvement with bond offerings. He said he would provide some underlying data, upon request. In general, the process would proceed with Financing Services making a recommendation to issue the bond, the recommendation being provided to the City Manager, and then to the Council for approval. He would then receive a notice from Financing Services informing him that a team was forming to work on a bond issuance. Eric Adachi (Rate Analyst/Supervising Economist, Financing Services) would put together the sewer rate case models. Mr. Wochaski would prepare updates to tables of the POS using the previous OS.

Mr. Wochaski was shown Exhibit 1, the 1999 Official Statement for the Sewer Revenue Bonds Series 1999A and Series 1999B. Ms. Blaskey asked Mr. Wochaski about his involvement with the 1999 offering. He stated that he would have updated the financial information in the POS and provided the information to Eric Adachi in Financing Services.

Later in the interview, Mr. Wochaski was again shown the 1999 Sewer OS and asked to discuss his specific involvement with it. He said that he contributed to Table 5, preparing the "actual unaudited" column and putting in new numbers, while Financing Services did the projections. He prepared Table 6 (which differentiated for revenue but not for expenses). He also prepared the sewer service revenue for Table 9 and footnote 5, as well as the last column of Table 10 (including capacity charge revenues). He also prepared all of Tables 12 and 13, and the "actual column" for Table 14 (although the pension plan part was done by Webster).

Ms. Blaskey asked Mr. Wochaski to turn to page 22 of the POS and asked him whether he contributed to the contents of the page. He said that he reviewed it, mainly looking for typos. He did not recall discussions of any wastewater regulatory issues, except for OPRA issues. Mr. Wochaski stated that Ted Bromfield was the person to speak to about these sections because OPRA was the main regulatory issue always discussed. He noted that Kelly Salt dealt with Proposition 218 a lot. Ms. Blaskey asked Mr. Wochaski if he recalled discussions about sewer loans and grants and State requirements. He said that he did not recall discussions regarding grants and loans. The only discussion he recalled about loans was whether the loans were on parity or subordinated to other obligations. Orrick Herrington (the City's outside bond counsel) raised concerns about subordination and he recalls that issue being discussed. He knew the City had grants outstanding but did not know the conditions of the grants. He only recalled OPRA being discussed during the all-hands meetings and did not recall State Water Resources

Control Board ("SWRCB") requirements being raised. Ms. Blaskey asked Mr. Wochaski if he recalled discussions about COSS's. He said that he recalled continual general discussions about the COSS, perhaps during the meetings; but did not remember any direct conversation about it. He said Dennis Kahlie (Utilities Finance Administrator) and Adachi from Financing Services talked about the COSS being completed.

Ms. Blaskey asked Mr. Wochaski to describe the all-hands meetings that took place for the 1999 offering. He said that meetings took place to review the drafts of the POS. Representatives of the MWWD, Wochaski's office, outside bond counsel, and the Financial Advisor attended. From his Office, he and Hammerschmidt would typically attend. Hanley and Clay Bingham would attend from MWWD. Adachi and Kahlie would attend from Financing Services. Paul Webber and Jenna Magan would attend as outside bond counsel, and Kelly Salt and sometimes Ted Bromfield would attend from the City Attorney's Office. Terri Webster and Ed Ryan were usually not involved but were involved in the rating agency presentations.

At the all-hands meetings, the process was to go page by page through the draft POS and other relevant legal documents, including ordinances and resolutions. Webber, while flipping through every page, would ask if anyone had any comments or questions. Ms. Blaskey asked Mr. Wochaski what the draft POS that was initially reviewed at the all-hands meeting consisted of. He said that it was the previous OS with a rough update. Each group was then assigned a section to further update and add to the master document. (In 1999, he updated the tables including net income, coverage, accounts receivable and customer revenues.) The new draft was then circulated to the group and another meeting was held to review it. At that meeting and subsequent ones, they would again go through the entire document, page by page, and the whole group would "chime in" with changes. The meetings were led by outside counsel. Webber would ask questions regarding the sections and about anything that needed to be changed. In addition, sometimes issues were dealt with "off line" with the people most knowledgeable about them. Mr. Wochaski recalls Bromfield alerting Webber to changes regarding the EPA waiver issue. He does not recall any discussions about the City's noncompliance with its grant and loan conditions. There were three to four meetings per issuance and each meeting ran three to four hours.

### ***Review Process for the POS***

Ms. Blaskey asked Mr. Wochaski to describe the process used by the Auditor & Comptroller for reviewing the POS. He said that Ryan would review the POS and provide questions and comments to him, Phil Phillips would not review it (he noted that Phillips had a hands-off approach toward the utility funds and was more involved in non-utility grants), and Webster was not active in the review process. He said Frazier would review the POS. While he was not asked questions by the Council about the POS or the financial statements, he recalls Hanley or Bingham from the MWWD asked him questions.

Mr. Wochaski was shown Exhibit 2, and he identified the document as the task distribution for the POS. He said that Financing Services or the Financial Advisor made the assignments. Ms. Blaskey asked Mr. Wochaski who would review items not listed on the disclosure assignment sheet. He said that if no one was listed on the disclosure assignment sheet, Financing Services would assign the section. Adachi would likely have made sure every section was updated.

### ***Approval Process for the POS***

Ms. Blaskey asked Mr. Wochaski to describe the approval process for the POS. Mr. Wochaski said that a "1472," a request for action by the Council, would be circulated to Council and would accompany the bond documents. The City Manager would provide to Council a report and recommendation about the bond issuance. The item would be presented at an open session Council meeting where the Council voted to approve it. The bond issuance was usually presented by Financing Services (Kahlie or Frazier) and the MWWD.

### ***The 2003 Sewer POS***

Ms. Blaskey asked Mr. Wochaski about the 2003 Sewer POS. He said it had been suspended. It had gone to Council for a vote in July or August 2003, and was later "pulled off the table" at the last minute, as a result of concerns raised by Diane Shipione. Although Financing Services and the Financial Advisor were in New York, ready to issue the bond, the 2003 POS was never finalized and issued as an OS.

### ***Rating Agency Presentations***

Ms. Blaskey asked Mr. Wochaski to describe his involvement with rating agency presentations. Mr. Wochaski said he did not attend the 1999 sewer rating agency presentation but did attend the 2003 one. The Financial Advisor would prepare the script and Mr. Wochaski would get a copy of it and review the parts he was involved with. He would trace the tables from the presentation back to the POS to ensure the accuracy of the figures, transmit changes to Adachi, and then Adachi would provide the information to the Financial Advisor. The Financial Advisor would update the presentation and would distribute it for approval.

Mr. Wochaski said that he, Frazier, Ryan, Adachi, Kahlie, Salt, Bromfield, Hanley, Bingham, and perhaps Lakshmi Kommi attended the 2003 sewer rating agency presentation, which Frazier led. Moody's, Fitch, and Standard & Poor's were the sewer rating agencies. At the presentation, Frazier provided an introduction, then the MWWD presentation was given by Bingham or Hanley, the financing section was then discussed by Kahlie, and the financial information was provided by Ryan. Mr. Wochaski presented the part regarding coverage and operating results for the sewer fund. The meetings were similar for all rating agency presentations. The rating agency would ask questions and the person most knowledgeable would answer. When asked by Ms. Blaskey whether he recalled anticipated questions being distributed beforehand, he said he did not recall. At the end of the presentation, some rating agencies would e-mail questions subsequent to the presentation. Adachi would distribute questions received from the rating agencies and assign people to answer them based on their area of expertise.

### ***Operation and Maintenance Expenditures ("O&M")***

Ms. Blaskey asked Mr. Wochaski to explain O & M expenditures. Mr. Wochaski said that O & M expenditures involve anything relating to expenditures for ongoing operations of the system, including administrative expenditures. He stated that GAAP requires that anything not capital in nature be categorized as O & M. Utilities must collect sufficient money to operate the system and pay for capital improvements. Enterprise funds are only charged an amount sufficient to recover costs of that fund. Mr. Wochaski provided historical O&M figures to Financing Services, enabling it to calculate projected expenses.

### *City Users v. the P.A.'s*

Ms. Blaskey asked Mr. Wochaski about the allocation of sewage treatment costs among the City's own users and the Participating Agencies ("PA's"). He described that a utility fund has two user types: the PA's and the City users. Mr. Wochaski's role was to separate from the total expenses of sewage treatment for all users, the isolated cost of treating residential users' waste. He did not identify costs (within the City) for each customer type, and instead that analysis formed part of the COSS. He did note that revenue generated from commercial and residential sewer users was identified by the City (without regard to a COSS), but costs were not.

Ms. Blaskey asked Mr. Wochaski to describe his knowledge of the allocation of treatment costs (for both the PA's and the City users). Mr. Wochaski said that the PA's allocated costs based on three components: flow, SS and COD. This methodology was implemented once a new agreement was negotiated between the City and the PA's in 1998. The total expenses were no different with this new agreement; only how those expenses were distributed was different. He said Hammerschmidt first informed him about the agreement and told him that the current agreement with the PA's was expiring and that there was tension regarding the allocation of costs. Mr. Wochaski recalled that under the new agreement, he had to significantly change his previous calculations for the PA's in order to account for organics. He received information from the sewer department so that he could perform the calculations.

Ms. Blaskey asked Mr. Wochaski if he was aware of how the City's own users were being billed at the time. He said that in 1998, the City was using a different billing methodology than the PA's. Mr. Wochaski was not involved in billing for City residents, just for the PA's, and he was not aware of the specifics of how City residents' bills were calculated. He was aware that the City users were billed using the City's CIS computer system and the PA's were not. Mr. Wochaski did calculations which he provided to the MWW which served as the basis for the PA's bills. Mr. Wochaski said he first learned of a discrepancy between how the PA's were billed and how the City was billed when he read about it last year in the newspaper. Ms. Blaskey asked Mr. Wochaski if he had discussions with anyone after reading about this issue in the news. He said he spoke internally with his staff about it, including Carole O'Hanlon, Accountant III. He did not discuss it with anyone from the other departments.

### *Grants*

Ms. Blaskey asked Mr. Wochaski to describe how grants were handled by his department. He said that each department took ownership of its own grants. Depending upon the grant, different accountants had responsibility. For the utility grants, the utility accountant (in this case, him) was responsible, as he also was for utility loans and bond issuances. The City's general debt was handled by the general fund accountant.

### *Wochaski's Concerns*

Mr. Wochaski volunteered that he had noticed problems with how his department dealt with "issues." He said Philips was mainly "hands off" regarding the utilities, though he did not know why. Part of the problems that later arose was because, in practice, "the buck stopped" with Wochaski. There was not the kind of oversight he would have liked and errors occurred. Other factors also contributed to the problems, including: staffing issues (being overworked); an outdated accounting system, which made it hard to extract information and caused time to be spent on extraction rather than analysis; and a lack of oversight. Steps have been and are being taken to resolve these issues, including the creation of a new data warehouse system, which is user- friendly and more efficient than the old system.

Later in the interview, Ms. Blaskey asked Mr. Wochaski to describe why he believed mistakes were made. He said that there was a lack of documented procedures. There was no centralized process for preparation of financial statements, which bred inconsistency. There was time pressure to get the statements finalized and released, and less time for thorough review. The outside auditors did not do a good job and they were relied upon too heavily. In his view, reliance was appropriate but the internal auditors may have relied too much on the outside auditors to catch errors, and the internal auditors should have noticed the errors before the outside auditors even received the statements. Nevertheless, the outside auditors also should have realized there were deficiencies. He said Webster should have realized the pension footnotes were incorrect.

### *Responsibility for Footnote Preparation*

Ms. Blaskey asked Mr. Wochaski who was responsible for the footnotes. He said that the footnotes were the responsibility of the outside auditors, but that the City should have done an additional review, which he noted did not happen. The City has since implemented steps to make sure additional review takes place. All concerns are being addressed. A good review process is now in place with concurrent reviews of all financial statements. Data is still hard to extract but they are putting a new system in place.

### *Supervision*

Ms. Blaskey asked Mr. Wochaski to describe how he was supervised. Mr. Wochaski said that he believed Philips did not review financial statements in 2001 or 2002. From 1999-2000, Mr. Wochaski reported to Hammerschmidt, who did provide oversight and guidance by reviewing financial statements and providing comments.



### *Ed Ryan*

Ms. Blaskey asked Mr. Wochaski to describe his dealings with Ed Ryan. He said that Ryan was a micromanager who was involved in the details. Ryan wanted regular status updates and routinely met with the Principal Accounts, including separate meetings with each division. Prior to becoming a Principal Accountant, Mr. Wochaski did not have much interaction with Ryan. He described Ryan as a tough but fair boss who knew how he wanted things done. Ms. Blaskey asked Mr. Wochaski how Ryan would deal with differences of opinion. He said that if you had a difference of opinion with him you could put it forward and he would listen to it, but if his mind was made up, it would be done Ryan's way because Ryan was the final arbiter. Mr. Wochaski was never aware of Ryan acting unethically. When asked by Ms. Blaskey whether he was ever pressured to do something he did not want to do, he said he was not. He described Ryan as conservative, "old school" traditional and authoritarian. He said Ryan "wanted to do it right and accurate."

Ms. Blaskey asked Mr. Wochaski to describe the bi-weekly meetings with Ryan he referenced earlier. He said that he had bi-weekly meetings with Ed Ryan, the Division Manager (Philips), the Principal Accountants (Graciano, McCraner, Weston, and Wochaski) and Webster. With the exception of Webster, they would each describe to Ryan what they were working on, and would submit highlights and status updates. Ryan would review their submissions and raise questions during the meeting. Mr. Wochaski believed that the retirement accountants, San Pedro and Mike Philips, did not attend the Ryan bi-weekly meetings and did not report to the Accounting Division Manager (Phil Philips). Instead, San Pedro reported directly to Webster.

### *Terri Webster*

Ms. Blaskey asked Mr. Wochaski to describe his dealings with Terri Webster. Mr. Wochaski characterized Webster as "hands off" and heavily involved in retirement issues. He said she would not review the financial statements for the water or sewer utilities, nor did he recall asking her to.

He described that his impression of Webster was that she could have been more tactful in answering questions and could have been a better technical accountant. She did not have a lot of accounting division experience. He said that "it would have been interesting to see someone with better technical abilities" and what they would have done regarding the CAFR footnotes. He noted that someone with such skills "probably would have" caught the errors. He said that knowing her, he believed the errors were a mistake and not intentional. He said that he was not aware of any pressure being placed on Webster or Ryan but that "everyone" has pressure to provide "the most positive spin." As far as he knew, no one crossed the line by misleading others or engaging in fraudulent conduct, including Webster. Mistakes were made and there are "lots of reasons" for them but he did not feel they were intentional.

### *GASB 34*

Ms. Blaskey asked Mr. Wochaski to discuss his involvement with the implementation of GASB 34. He said that GASB 34 was implemented in 2002, and a team was formed to deal with the issue, including Rudy Graciano, Tracy McCraner (Principal Accountant

for the CIP section), Wochaski and Hammerschmidt (until she retired). The group looked at GASB 34 and analyzed its impact on the CAFR. They did a pro forma 2001 financial statement in GASB 34 format, completed it, and used it as the basis for the 2002 statement. They thought that GASB 34 was fully implemented by the City but, in hindsight, things could have been done that were not done. Ms. Blaskey asked Mr. Wochaski if anyone thought GASB 34 was either not properly implemented or was intentionally improperly implemented. He did not recall anyone being concerned that GASB 34 was not appropriately implemented, and the outside auditors did not give them any negative comments about it. He said the intent was to implement GASB 34 properly.

### ***Transmitting Corrections to Rating Agencies***

Ms. Blaskey asked Mr. Wochaski how corrections to financial information would be transmitted to the rating agencies. He said that if there were corrections that needed to be made to information already presented, they would correct the tables in the continuing disclosures, and would also amend and footnote the continuing disclosures. This information would then be sent to the rating agencies.

### ***Blue Ribbon Committee***

Ms. Blaskey asked Mr. Wochaski if he had any involvement with the Blue Ribbon Committee. He did not know about the Committee in 2001, but recently learned about it by reading one of City Attorney Michael Aguirre's reports.

### ***The Corbett Litigation***

Ms. Blaskey asked Mr. Wochaski to describe his involvement with the *Corbett* litigation. He said he read about *Corbett* and he thought it related to the pension fund. He recalled that Cecilia San Pedro, a retirement accountant, inputted information about *Corbett* and sent it to him, and then he booked it.

### ***MP-1 and MP-2***

Ms. Blaskey asked Mr. Wochaski about his involvement with MP-1 and MP-2. He said he read about MP-1 during the KPMG audit but was not involved in discussions regarding MP-1 and MP-2.

### ***Voluntary Disclosures***

Ms. Blaskey asked Mr. Wochaski to describe his involvement with voluntary disclosures. He recalled that for the 2004 voluntary disclosure, Kahlie or Adachi from Financing Services informed him that there might have been errors. He said his first reaction was that it could not be true, but then he looked at them and it was. He spoke with Philips and, days later, Philips said that they were going to compare the CAFR to the sewer financials. He said that Philips and Morrow-Truver reviewed the footnotes historically, comparing the 2002 CAFR and 2002 sewer financials for inconsistencies. In this parallel review, Philips (as the internal accountant) looked at the CAFR and utility financials, while Morrow-Truver (as the internal

Auditor) did the same. Morrow-Truver (who was in charge of the Audit Division and reported to Webster and Ryan) also looked at the CAFR pension footnotes.

### ***Removal of Financials from Website***

Mr. Wochaski was shown Exhibit 3, a September 16, 2003 email from Terri Webster to Ed Ryan, Ed Wochaski, and Bob Wilson re: "Fwd: Wastewater Financials," attaching a September 16, 2003 email from Mary Vattimo to Patricia Frazier, Ed Ryan, and Terri Webster, regarding the need to remove certain financial information from the City's website. He recalled that Bob Wilson, Financial Systems Manager, removed the financials from the website. When asked by Ms. Blaskey if he knew of possible problems with the financials before Exhibit 3 was sent, he said he probably did.

### ***Post Retirement Health Insurance Benefits***

Mr. Wochaski was shown Exhibit 4, a September 9, 2003, 5:05 p.m. email from Terri Webster to Ed Wochaski re: "Re: Questions from Eric Adachi/Paul Webber." Ms. Blaskey asked Mr. Wochaski what Webster was referring to in the email. He said that Webster was asking if post retirement health insurance was included in the projection tables in the OS. He assumed it was included in the regular retirement contribution, but noted it did not seem unreasonable to him to use excess reserves for retirement purposes.

Mr. Wochaski was shown Exhibit 5, a September 9, 2003, 11:02 p.m. email from Terri Webster to Ed Wochaski re: "Question from Eric Adachi/Paul Webber." Ms. Blaskey asked Mr. Wochaski what he understood Webster to mean in the email. He understood that Webster did not want him talking about the funds he did not have knowledge about, but did not think she was trying to deter him from talking to others. Mr. Wochaski said the email related to the errors in the financial statements and Webster was trying address the post retirement benefits. She told him about a reserve fund for retiree benefits but did not mention any implications of that reserve on the financial statements. Ms. Blaskey asked Mr. Wochaski if he followed up with Paul Webber about the issue. He stated that he did not, but believed Webster talked to Webber and Adachi about the retirement issues, and since he never heard back from them, he figured Webster had taken care of it.

### ***Voluntary Disclosure Involvement Revisited***

Mr. Wochaski was shown Exhibit 6, an October 3, 2003, 11:51 a.m. email from Thomas Saiz to Ed Wochaski re: "Manager Proposal" and Exhibit 7, an October 3, 2003, 12:18 p.m. email from Ed Wochaski to Darlene Morrow-Truver, Philip Phillips and Terri Webster re: "Fwd: Manager Proposal." Ms. Blaskey asked Mr. Wochaski to identify Tom Saiz. He said that Tom Saiz was the audit partner for the audit, attended status meetings, and updated him about the audit. When asked by Ms. Blaskey, he said he did not recall receiving these emails. He said that for certain information about the voluntary disclosure, he was the "clearinghouse," but he did not recall communicating with Tom Saiz about it, or putting together information for it. Mr. Wochaski surmised that, upon reviewing Exhibits 6 and 7, he would have read the emails and probably just forwarded them to Morrow-Truver and Philips who were conducting the parallel review. Mr. Wochaski stated that, from the emails, it looks like they were working on a

subsequent event disclosure, for which the outside auditors would have talked to Philips. He noted that he was the lead liaison with the outside auditors for the audit itself.

Mr. Wochaski was shown Exhibit 8, an October 15, 2003, 4:34 p.m. email from Eric Adachi re: "Sewer pension questions." When asked by Ms. Blaskey, he said he recalled the email and probably read it at the time. Mr. Wochaski said that his focus would have been on Webster's question. He noted that Webster's explanation is hard to follow.

Mr. Wochaski was shown Exhibit 9, a March 9, 2004 email from Philip Phillips to Eileen Cheng, Gary Caporicci, [JTsaai@c-lcpa.com](mailto:JTsaai@c-lcpa.com), Darlene Morrow-Truver, Ed Wochaski, Kathleen Organ, Maria Weston, Rudy Graciano, Tracy McCraner, and Terri Webster re: "Review Notes for Other Reports." He was also shown Exhibit 10, a March 8, 2004 email from Eileen Cheng to Maria Weston, Gary Caporicci, and Tracy McCraner, ccing [JTsaai@c-lcpa.com](mailto:JTsaai@c-lcpa.com), Ed Wochaski, Kathleen Organ, Philip Phillips and Rudy Graciano re: "Review Notes for Other Reports." He did not recall them. Ms. Blaskey asked Mr. Wochaski to discuss the issue involved with these documents. He explained that there is a separate report on compliance from the outside auditors that accompanies the stand alone financials, which is required by the Single Audit Act. He probably would not have focused on the emails since they implicated Eileen Cheng from C & L and Tracy McCraner rather than him. The City was discussing the need for the report on compliance but he did not know the result. C & L audited the stand alones for 2003 but not the CAFR, or water or sewer financials. When asked by Ms. Blaskey, he said that he did not believe these financials have been issued.

#### ***Warm Review***

Mr. Wochaski was shown Exhibit 11, a December 27, 2003 email from Philip Phillips to Tom Saiz, Ed Ryan, Ed Wochaski, Karen Frank, Maria Weston, Rudy Graciano, Tracy McCraner, and Terri Webster re: "CAFR review." When asked by Ms. Blaskey, he said he did not recall the e-mail. He said the "Ed" referenced is Ed Ryan. Ms. Blaskey asked Mr. Wochaski to explain a "warm review." He said a cold review was providing the CAFR to someone to review who was independent and impartial, so he thought a warm review was probably an initial review or maybe meant that Phillips already had looked at it before. He speculated that what was being discussed was the State impact of holding back State vehicle fees, an issue that probably involved Ryan.

#### ***Audit Review of Pension Footnotes***

Mr. Wochaski was shown Exhibit 12, Doc 323723, 1/6/04, 8:43 a.m. When asked by Ms. Blaskey, he did not recall seeing Exhibit 12. Ms. Blaskey asked Ms. Wochaski if the review process was the same for the pension footnotes in the CAFR and in the sewer financial statements. He replied that Morrow-Truver's review of the pension footnotes in the CAFR and in the sewer standalones was the same. She came on board after errors were found, and her role was to find errors, review changes, and oversee the audit. Ms. Blaskey asked Mr. Wochaski who the "Rick" was, referenced in the email. He said that the "Rick" referenced is Rick Roeder, but noted that he never met him. Ms. Blaskey asked Mr. Wochaski if he heard complaints about Roeder. He said he heard grumblings from Webster that Roeder was slow to come up with information and did not respond in a timely manner.

### *Interactions with Webber*

Ms. Blaskey asked Mr. Wochaski to describe his interactions with Paul Webber. He said that Webber was at the all hands meetings for the 2003 Sewer POS. He said Orrick asked relevant questions and seemed to be performing due diligence. Ms. Blaskey asked Mr. Wochaski if there was a reluctance on the part of the City or Webber to disclose information. He said that he felt City employees shared information with Webber and it was his impression that Orrick wanted to disclose it as well. Mr. Wochaski did not see any resistance to disclose and viewed the meetings as collaborative efforts. Ms. Blaskey asked Mr. Wochaski if he recalled increased interaction with Orrick during the voluntary disclosure, and he said he did not.

Mr. Wochaski was shown Exhibit 13, the June 20, 2003 draft 2003 POS. He said that the changes on page 31 and 22 were not the type of changes that would necessarily be discussed at the meetings. Ms. Blaskey asked Mr. Wochaski if he recalled discussing the City's regulatory systems or if he recalled discussing noncompliance and the possible loss of grants and loans because of noncompliance during the all-hands meetings. He said that he did not recall discussing these changes, the noncompliance, or the possible loss of hundreds of millions of dollars in grants and loans. He said had these issues been discussed, he would have recalled them and he did not. Ms. Blaskey asked Mr. Wochaski about his reaction when he found out about the City's noncompliance. He said that he was frustrated that he was not told at the time. He would have expected Financing Services, the MWWD, or the attorneys to have told him. He believes the information was relevant to making disclosures in the financial statements and the footnotes, but said the information would not have changed the figures in the financial statements. He said it should have been discussed at the all-hands meeting. He said he did not recall the issue of the City's noncompliance being shared with Webber, and further believes that had Webber been told, he would have disclosed it. It was his impression that Webber did his due diligence. Ms. Blaskey asked Mr. Wochaski if he recalled discussing the "disallowed" language regarding the City's rate structure in the POS, and who was responsible for that section. He said that he did not recall it being discussed, but that Salt likely bore responsibility for the accuracy and completeness of that section. Ms. Blaskey asked him who updated the pension language on page 57 of the 2003 POS and pages 49-99. He said that Webster updated it but part of it was lifted out of the financial statements.

Mr. Wochaski was shown Exhibit 14, a January 15, 2004, 1:37 p.m. email from Terri Webster to Darlene Morrow-Truver, Ed Wochaski, Philip Phillips, and Rudy Graciano re: "Checklist of Items to Complete for Disclosures," attaching a January 15, 2004, 12:31 p.m. email from Dan Deaton to Terri Webster re: "Checklist of Items to Complete for Disclosures." He did not recall participating in this call or on any calls with Orrick except for one about the voluntary disclosure. Ms. Blaskey asked Mr. Wochaski if he was aware of a second disclosure regarding water and sewer, and he said that he was. He said that he has seen both of them but had no role in preparing them. Mr. Wochaski recalled a decision made by Financing Services not to have financial data in them. He volunteered that the COSS was first referenced in the March 26, 2004 voluntary disclosure. Ms. Blaskey asked Mr. Wochaski if he expected to play a more active role in the voluntary disclosure than he had, and he said that he would not have, even given his participation in the POS. He also noted that he was not involved in continuing disclosures, though he was aware of the process of whether to file one.

### ***Disclosure of Noncompliance in 2002 Sewer Utility Annual Financial Report***

Mr. Wochaski was shown Exhibit 15, the 2002 Sewer Utility Annual Financial Report. Ms. Blaskey asked Mr. Wochaski who had drafted note 7 on page 39. He said that Hammerschmidt and the MWWD drafted that section and it was specific only to the PA's. Ms. Blaskey asked Mr. Wochaski *why noncompliance of City users is not disclosed*. He reiterated that the section pertained to PA billing only and said that the PA's did not care how the City users were billed. While he did acknowledge that the sewer financial statement as a whole was intended for City residents, he believed that since the allocation discussion was contained in the section limited to PA's, it was not misleading. He said that Table 3 addresses allocation for residents. He commented that if it is okay to charge citizens differently, it is also okay not to disclose that fact. Ms. Blaskey asked Mr. Wochaski who from the MWWD reviewed the annual financials. He said that the annual financials for sewer and water were reviewed by Hanley, and that he would have expected Hanley to advise him of the City's noncompliance issue. Mr. Wochaski had frequently interacted with Bill Hanley regarding sewer issues, including CIP planning and budgetary planning. With the knowledge he has today, he said that the main body of the footnotes should have disclosed the issue, and that there should also have been disclosure (as a contingency) about the possibility of the recall of the grants.

### ***Shipione Memo***

Mr. Wochaski was shown Exhibit 16, an October 29, 2004 letter from Diann Shipione to Steve DeVetter, Andrew Paulden, and Amanda Wilson re; "Memo to KPMG Audit Team." Ms. Blaskey asked Mr. Wochaski to explain the issues discussed in Exhibit 16. He said that the memo addresses payments from the enterprise funds and transfers between the water and sewer funds and the City. He said the transfers were expense-oriented and "run back to a cost." They were expensed through subsidiary accounting records. Transfers between the General Fund and the enterprise funds all relate to reimbursement. He said these costs are legitimate. He volunteered that the PA's hired one company jointly to audit the financial statements to address such transfers to make sure they were appropriate. Ms. Blaskey asked Mr. Wochaski if there is anything improper regarding the fund transfers, and he said he could not think of anything. Ms. Blaskey asked Mr. Wochaski if he investigated this or any other of Shipione's claims and he said he was never asked to do, and did not.

### ***Additional Concerns***

Ms. Blaskey asked Mr. Wochaski if he had any additional concerns not discussed. He said he was not happy about the mistakes made, and that the City was putting processes in place to make sure they did not happen again. He reiterated his concern that Adachi and Kahlie never raised the rate structure issue with him, and said Hanley was close with him and he would have expected Hanley to tell him about the rate structure. He also said Hanley had integrity and would not do anything wrong intentionally.

### *Conclusion*

Ms. Blaskey thanked Mr. Wochaski for participating in the interview, and asked that if anything occurs to him or he wishes to correct his responses, he should contact us. Ms. Blaskey requested that Mr. Wochaski keep the interview confidential.

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